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Foreword

This report, the second for 1948, is one of a series, prepared and distributed periodically to senior administrative officers in the Federal Service. The purpose of the reports is to praise what current and prospective economic trends may be expected involve in terms of the level of employment and income during the coming year.

This report consists of three parts: Part I comprises the summary and the tabular material in which the outlook is set forth in quantitative terms; Part II is entitled "The First Half of 1948", and Part III "The Forecast and Its Components".

August 1948,
Ottawa, Canada.

Alex Skelton,
Director-General of Economic Research,
Department of Reconstruction and Supply.



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PART I

SUMMARY OF THE OUTLOOK

In the appraisal of 1948 prospects set out in the February report, it was suggested that the Canadian boom would continue through the year and that the Gross National Product would probably increase 10 per cent to 15 per cent above the record \$13 billion level of 1947. It was anticipated that the major portion of this increase would come from higher prices but that there would also be some increase in actual physical volume of production, assuming average crop yields and no serious industrial labour trouble.

Now, judging from the experience of the first half of the year, it appears that Gross National Product is likely to increase by roughly the maximum of the range previously anticipated and should, in fact, exceed the \$15 billion mark. The upward shift in the estimated level of Gross National Product arises not so much from any increase in physical production above that expected as from some strengthening of demand forces and some underestimation in the previous appraisal of the effects of inflationary pressures generally.

Demand Aspects - Although it was suggested in the earlier report that, with or without E.R.P. purchases, the foreign market was likely during 1948 to absorb virtually all of the surpluses of Canada's major export items, the outlook appraisal as stated nevertheless took into account the psychological effects of a prospective trimming of the E.R.P. proposals. The subsequent approval of the program of aid to Europe at roughly the scale proposed by the President, coupled with a minimum of restrictions on purchasing in Canada, has given a new impetus to confidence. Similarly in the U.S., the acceptance of the European Recovery Program, the increase in appropriations for military preparedness, and the firming of capital investment requirements, have served to strengthen the anticipation that inflationary forces would predominate during the second half of the year. However, within the overall inflationary situation now envisaged, a second down-turn in food prices is not unlikely if prospective good crops materialize in the major food-producing areas. The effect of this reinforced buoyancy in the U.S. market has been to strengthen the demand for Canadian products. Export prices can, therefore, be expected to hold firm or increase throughout the year, albeit that the increasing price trend in imports is even more accentuated.

Due in part, no doubt, to re-assuring developments in the foreign market, a strengthening of demand is also indicated in the domestic capital

investment market by a mid-year review of investment intentions. This shows an increase from \$2.8 billion to \$3 billion in the total planned expenditures, both public and private. The enhanced level of foreign and capital investment demand could be expected in turn to contribute to some further accumulation of inventories. In the government sector expenditure plans remain much the same as shown in the February statement, except for some increase in capital outlay which is taken into account in the increased investment figure noted above.

On the other hand in the consumer market the upward trend of prices, accentuated by stronger demands in the foreign and investment sectors and by the rising cost of imports, has served to dampen spending. Although the higher prices have to a large extent been accompanied by higher incomes, nevertheless the reduction in real incomes over the last year, particularly of wage and salary groups, has perhaps been greater than previously anticipated. Consequently, whereas it was previously expected that the physical volume of spending in 1948 compared to 1947 might remain roughly unchanged, some slight reduction now appears probable.

Supply Aspects - Mid-way through the year, the previous assumptions relating to physical production still appear realistic. With respect to agriculture, spring floods in the West caused some slight reduction in acreages planted. Growing conditions have been favourable throughout most areas of the country, an important exception being the Central Prairie region where drought conditions up to mid-July will seriously reduce yields. It is now expected that the wheat crop will be considerably below average but the good condition of other crops generally would probably justify the expectation of overall average yields. In the industrial field there have been no strikes in Canada as would significantly impair general industrial activity. Under the buoyant market conditions prevailing, the labour force has increased more than was expected. Consequently, an increase over 1947 levels of nearly 3 per cent rather than 2 per cent, is now expected with employment correspondingly higher. These factors combined with some improvement in productivity should provide the basis for a moderate increase in the overall physical volume of production roughly commensurate with that provided for in the previous report.


In spite of some increase in productivity, the volume of goods available for use, particularly in some consumer items, continues to be reduced below 1947 levels as a consequence of import restrictions. The restrictions on imports of capital goods were designed primarily to influence the use made of imported goods rather than to curtail purchases abroad, and

imports of capital goods have therefore continued to increase over 1947 levels. Nevertheless, imports of capital goods are considerably less than they would otherwise have been, largely because it has often been possible to substitute domestic for foreign sources of supply.

Prices - As compared to the outlook in February, some strengthening of demand relative to supply should result in an overall increase in the average price level between 1947 and 1948 of not less than 12 per cent. Also contributing to this price rise have been the complex of influences emanating from maladjusted cost-price relationships, upward cost pressures and de-control measures, the effects of which are still permeating through the economy. Paramount among these influences is the recent increase in freight rates.

Distribution of Gross National Product Among Expenditure and Income Components - With respect to the expenditure components, the general effect of the revision in the pattern of demand and prices now anticipated, when compared with the February appraisal, is to increase the relative share of the national product going to foreign buyers and to investors at the expense of domestic consumers. Compared with the 1947 position this leaves exports and also consumers with a lower proportionate share of the national product, while the share of investment is somewhat higher. At the same time it appears that imports, in accordance with previous expectations, will remain in dollar value a little below the 1947 level. As a consequence a favourable foreign balance roughly double that previously estimated, and amounting to something over \$300 million, now seems likely to be realized. The achievement of a surplus of this magnitude will be made possible by the character and extent of American aid to Europe, by the continuance of a very high level of prosperity in the U.S. itself, and by the continued restriction of imports from abroad. Some reservations must remain, however, pending the harvesting of the crops.

On the income side, alterations in the outlook since the beginning of the year involve moderate upward adjustments in labour income, investment income, and earnings of non-farm individual enterprise. Salaries and wages are expected to exceed original anticipations by reason of somewhat higher employment than was foreseen when the first report was prepared, and roughly unchanged anticipations of an increase of 11 per cent in average earnings. . The increase in average earnings will thus fall short of the 14 per cent increase anticipated in the cost of living. Investment income is now expected to show a greater increase than was originally anticipated, in reflection of



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the higher price level now expected to prevail. Similar considerations support an upward revision of the estimate of the net income of individual enterprise non-farm. Although the distribution by income components in 1948 as compared with 1947 shows no startling change, that must not be taken to imply that the experiences of individuals or groups of individuals would not show significant differences. While the broadly upward movement of incomes supports the expectations of continued firmness in the market for consumer goods, the widening disparity between the movement of income of particular groups and the movement of particular prices (which is a formative influence upon the course of economic events this year) is the principal factor constraining consumer demand.

Employment - As reflected in employment the expansionary character of the year 1948 will involve an increase of about 120,000, or 3 per cent above that of 1947. Such an increase is made possibly by what, in terms of recent experience, is a large increment to the labour force between 1947 and 1948, as compared with no increase between the two previous years and a loss from the labour force following the end of the war. Some shifts in employment are anticipated in reflection of the shifts in the demand for final products referred to above. Unemployment is expected to be somewhat higher both absolutely and relative to the labour force than in 1947, but lower than was originally anticipated. This reflects a level of exports somewhat better than anticipated and minimum dislocating effects from our own import restrictions.

Industries - Since overall production and supply prospects show little alteration during the first part of the year, activity in various industries is expected to be substantially as anticipated. The exceptional buoyancy of the U.S. market for Canadian fish products has served to sustain output in this industry. Activity in the base metal industry has been enhanced somewhat above expectations, mainly as a result of the more urgent demands arising out of the U.S. Military Preparedness Program. The revision in the construction program will, of course, involve some increase in overall activity in this industry and also in the production of some building materials. On the other hand, although supplies of steel may be a little better than was originally anticipated, nevertheless shortages continue to hold output of major iron and steel products below the capacity of the fabricating industries. Progress toward establishment of Canadian sources of supply to replace U.S. imports, particularly of a capital goods nature, has been encouraging. Furthermore,

curtailment of activity as a result of restrictions on the import of materials and parts has not been serious, although repercussions may still appear with the progressive depletion of stocks.

Regions - The principal variation from the February appraisal consists of a noticeable improvement in the outlook for the Maritime Provinces. Activity in this region in 1948 is now expected to be a little higher than in 1947, as a result of the favourable turn in the foreign market for fish, the sizable increase over early year intentions in the local investment program and the good prospective crop. At the same time, however, unemployment in the chronically depressed areas -- New Glasgow, Amherst and Cape Breton -- is expected to remain serious. Elsewhere in Canada, the marked increase in the investment program in all regions except Ontario, which is suggested by the mid-year review of intentions, should result in a more even rate of expansion and a generally high level of activity in all areas.

TABLE I

GROSS NATIONAL PRODUCT AND GROSS NATIONAL EXPENDITURE, 1947 AND 1948

(millions of dollars)

Income	Revised Preliminary Estimate 1947	Revised Forecast 1948	Anticipated Change P.C.	Expenditure	Revised Preliminary Estimate 1947	Revised Forecast 1948	Anticipated Change P.C.
1. Salaries, wages and supplementary labour income	6,111	7,040	+ 15	1. Personal expenditure on consumer goods and services	8,736	9,765	+ 12
2. Military pay and allowances	83	85	+ 2	2. Government expenditure on goods and services	1,492	1,675	+ 12
3. Investment income	2,318	2,540	+ 10	3. Gross home investment (a) Plant, equipment & housing (b) Inventories	2,822 2,042 780	3,335 2,575 750	+ 18 + 26 - 3
4. Net income of individual enterprise Agriculture Other	2,308 1,235 1,073	2,670 1,460 1,210	+ 16 + 18 + 13	4. Exports of goods and services	3,581	3,900	+ 9
5. Net National Income at factor cost	10,820	12,335	+ 14	5. Deduct - Imports of goods and services	3,599	3,600	-
6. Indirect taxes less subsidies	1,571	1,775	+ 13	6. Residual error of estimate	+ 133	-	-
7. Depreciation allowances and similar business costs	906	965	+ 7	7. Gross National Expenditure at Market Prices	13,165	15,075	+ 15
8. Residual error of estimate	- 132	-	-				
9. Gross National Product at Market Prices	13,165	15,075	+ 15				

TABLE II
PERSONAL EXPENDITURE ON CONSUMER GOODS AND SERVICES
1947 - 1948
(millions of dollars)

	Revised Preliminary Estimate 1947	Revised Forecast 1948	Anticipated Change P.C.
Goods	6,056	6,887	+ 14
Perishable goods	3,785	4,253	+ 12
Semi-durable goods	1,295	1,523	+ 18
Durable goods	586	666	+ 14
Miscellaneous goods	390	445	+ 13
Services	2,380	2,570	+ 8
Net personal expenditure abroad	- 30	- 60	- 100
Add adjustment for new stores ⁽¹⁾	315	365	+ 16
Personal expenditure on consumer goods and services	8,736 ⁽²⁾	9,762	+ 12

- (1) Existing retail sales series, on which the estimate and forecast are based, do not reflect expenditure through newly established retail outlets. A preliminary estimate of such expenditure is shown under this heading.
- (2) This total includes a small adjusting item and is therefore not the sum of the figures shown above.

TABLE III

ESTIMATED VALUE OF PRIVATE INVESTMENT IN DURABLE PHYSICAL ASSETS AND

IN INVENTORIES, 1947 AND 1948

(Includes Government-Owned Enterprises)

(millions of dollars)

Type of Expenditure	Revised Preliminary Estimate 1947	Revised Forecast 1948	Anticipated Change P.C.
Investment in Durable Physical Assets			
Manufacturing	513	594	+ 16
Mining	76	103	+ 35
Woods Operations	25	22	- 12
Utilities	372	528	+ 42
Construction	46	40	- 13
Commercial	233	319	+ 37
Agriculture and Fishing (excluding housing)	267	316	+ 18
Institutions (1)	44	86	+ 95
Residential (2)	466	563	+ 21
Sub-total	2,042	2,571	+ 26
Investment in Inventories			
Industrial and Business	858	770	- 10
Grain in Commercial Channels	22	50	+ 127
Farm	- 100	- 60	+ 60
Sub-total	780	760	- 3
Total Domestic Private Investment	2,822	3,331	+ 18

(1) This excludes expenditures by municipal schools estimated at \$31 million for 1947 and \$57 million for 1948. These are covered under government expenditure.

(2) This excludes the value of residential housing carried out by War-time Housing Ltd., estimated at \$35 million for 1947, and \$50 million for 1948. It includes expenditures for major alterations estimated at \$50 million for 1947 and \$56 million for 1948.

TABLE IV

GOVERNMENT EXPENDITURE ON GOODS AND SERVICES, 1947 AND 1948⁽¹⁾

(millions of dollars)

Type of Expenditure		Federal	Provincial	Municipal ⁽²⁾	Total
New construction	1947	81.0	128.7	104.1	313.8
	1948	110.0 ⁽³⁾	145.0	141.0	396.0
New machinery and equipment	1947	17.5	12.6	15.1	45.2
	1948	21.3	12.3	15.7	49.3
Repair and maintenance to structures	1947	9.0	53.2	59.8	122.0
	1948	4.9	56.0	64.0	124.9
Repair and maintenance to machinery and equipment	1947	13.5	4.5	4.1	22.1
	1948	14.0	4.8	4.0	22.8
Resource development	1947	9.0	12.8	-	21.8
	1948	11.0	15.3	-	26.3
Other goods and services	1947	486.0	183.2	297.9	967.1
	1948	538.8	191.6	326.3	1,060.7
Total goods and services	1947	616.0	395.0	481.0	1,492.0
	1948	700.0	425.0	551.0	1,676.0

- (1) Expenditures are included at the level of government where goods and services are purchased. For example, subsidies from the federal government to the provinces appear under "Provincial" rather than under "Federal".
- (2) Includes expenditure on schools, and that part of expenditure on housing that is made under the Emergency Shelter Regulations.
- (3) Includes expenditure on residential construction made by Central Mortgage and Housing Corporation.

TABLE V
AGRICULTURAL NET INCOME, 1947 AND 1948
(millions of dollars)

	Revised Estimate 1947	Revised Forecast 1948
Cash income from farm products ⁽¹⁾	1,991	2,264
Grains, seeds and hay	655	789
Vegetables and other field crops	145	133
Live stock	590	657
Dairy Products	324	390
Fruits	49	49
Other principal farm products	124	129
Miscellaneous farm products	33	42
Forest products sold off farms	55	65
Fur Farming	16	10
Income in kind	323	345
Value of changes in inventory	- 100	- 60
Gross income	2,214	2,549
Operating expenses and depreciation charges	966	1,078
Net income excluding supplementary payments	1,248	1,471
Supplementary payments	12	15
Net income from farming operations	1,260	1,486
Net income of agriculture ⁽²⁾	1,235	1,460

- (1) Includes payments against participation certificates in the year in which they are made.
- (2) Net income of agriculture as shown in the D.B.S. "National Accounts - Income and Expenditure, 1938 - 1946" falls short of net income of farmers from farming operations in that it excludes net transfers under the Prairie Farm Income Act and Farm Assistance Act, as well as an imputed net rent of owner-occupied farm dwellings. The latter would form part of investment income.

TABLE VI

EMPLOYMENT, UNEMPLOYMENT AND THE LABOUR FORCE - 1947 AND 1948

(thousands of persons)

	Estimated 1947	Revised Forecast 1948	Anticipated Change P. C.
Wage-earners (non-farm)	3,087	3,205	+ 4
Forestry, fishing and trapping	155	144	- 8
Mining	76	85	+ 12 (1)
Manufacturing (inc. electric power)	1,084	1,116	+ 3
Trade, finance and insurance	553	597	+ 8
Services	709	723	+ 2
Transportation & Communications (2)	315	325	+ 3
Construction	195	215	+ 10
Agriculture	1,115	1,150	+ 3
Own Accounts and No Pays	548	565	+ 3
Adjustment (3)	+ 50	-	
Employed	4,800	4,920	+ 3
Unemployed (4)	100	120	+ 20
Civilian labour force	4,900	5,040	+ 3
Armed Services	37	35	- 5
Total labour force	4,937	5,075	+ 3

- (1) Part of the increase between the two years is accounted for by the strike of three months' duration in the Maritime coal fields.
- (2) Railway construction is included with transportation.
- (3) The estimate and forecast of wage-earners (non-farm) are based mainly on the D.B.S. monthly report "The Employment Situation" which affords only partial coverage of employment. Employment as a whole, unemployment and the labour force are estimated and forecast on the basis of the Sample Surveys of the Labour Force and the same definitions and concepts are used. The two series do not show identical trends, largely because of difference in the definition of employment and limitations of coverage in the one series. Hence an adjusting item is required.
- (4) The restrictive nature of the definition should be noted - "those who have not worked in the survey week and whose major activity was looking for work." Persons who work one hour or more or who have a job but are not at work on account of any one of several reasons, illness for example, are considered to be employed.

PART II

THE FIRST HALF OF 1948

The European Recovery Program

The major development of the first half of 1948 was the passing by the American Congress of the European Recovery Program substantially in the form put forward by the Administration. At the time the first report on the "Outlook of Employment and Income in Canada in 1948" was prepared there seemed every reason to be confident that the Administration's proposals would receive Congressional approval, but there was much uncertainty about the terms and conditions that might be attached to the receipt of assistance, and some fear that recipient countries might not be free to spend the funds provided elsewhere than in the United States. The conditions of assistance are now known and in broad outline the administrative procedures have been worked out. It is clear that the Economic Co-operation Administration will finance European purchases in Canada of foodstuffs and basic raw materials, these being generally items which the United States herself is not able to supply. Under the Act the Administration is directed to use E.C.A. funds to purchase only in the United States agricultural products declared to be in surplus supply in that country, and there are also legislative provisions designed to discriminate in favour of American shipping. However, the Administrator has laid down the principle that in approving European requirements and countries of procurement, ordinary commercial considerations of price and quality will be the final determinants. The program as laid down and as applied to date thus involves a minimum of restrictions on purchasing in Canada.

On the basis of the proposals approved by Congress, that is an amount of \$5.1 billion for a 12 month's period, American officials estimated, after allowing for all other sources of hard currency, that the amount of aid proposed would fall short of essential European requirements by \$450 million. It is obvious that European countries will have nothing to spare for non-essential supplies. Since most of Canada's major exports to Europe are of an essential character, the main effect of American assistance to Europe, even with the willingness to finance procurement in Canada out of American funds, will be to sustain Canadian exports to Europe at close to last year's level, and to convert what was a credit into a cash transaction. In the content of this export trade some shift of emphasis from manufactured goods to raw and basic materials is likely to take place.

Economic Developments in the United States

Meanwhile, in the United States itself the European aid program, combined with the increased Government expenditures on armaments and reduced personal income taxes, has strengthened the expectation that expansion and prosperity will continue for some time to come. The uncertainty and hesitation associated with the break in commodity prices early in the year have given way to a mood of almost heady optimism. Fear of inflation has been renewed and attention is again concentrated on the inability of certain industries, notably steel, to meet all the important competing demands at home and abroad.

The economic indicators reflect this pattern of expectations. In the spring (March) the index of new orders began to rise, and reflected particularly a heavy inflow of new business to the metal producing and fabricating industries. Unfilled orders in the heavy goods industries also rose. Construction indices continued their advance. Consumer expenditure rose at a somewhat slackened rate, with some offsetting influences as between sales of durables and non-durables. The Federal Reserve Board's survey of consumer intentions indicated a persisting backlog of demand for durables and for housing and the means to make demand effective either out of savings or current income or both. Employment continued to rise, likewise labour income, in consequence of larger numbers at work and higher average earnings, achieved in most instances without serious work stoppages. Increased imports and reduced exports increased the supply of goods available to the domestic buyer, as did a higher level of domestic production. The price structure has reflected diverging trends in industrial and agricultural prices. The improvement in crop prospects precipitated a fall in the price of many farm products, from which some have not recovered, thereby contributing to a slackening in the rate of increase in living costs. Prices of some important agricultural products now hover near support levels, while industrial prices continue to give evidence of overall pressure of demand upon supply.

Canada's Merchandise Trade

It is in this context of evolving plans for European recovery and a buoyant and generally expansive business situation in the United States itself, that the Canadian dollar conservation program was put under way. Apart from the continued rise in the prices of products imported from the U.S., the general situation has favoured the success of the program up to the present time. During the first six months of 1948 merchandise exports have

exceeded those of the same period last year by about 6 per cent and merchandise imports have been only a little higher, leaving a two-thirds increase in the surplus on commodity trade. Gradually increasing supplies of goods for sale to the United States have moved forward to firm markets at generally higher prices, raising merchandise exports to that country about one third above the level of the first six months of 1947, while the value of imports has been held about 10 per cent below, thus reducing the deficit with the United States on commodity trade to less than half what it had been in the previous year. Initially Canada has thus achieved a considerable success in her double objective - a surplus on her merchandise trade as a whole and a redirection of her exports and imports in such a way as would materially reduce her deficit with the United States. Imports from the U.K., which it is hoped to increase very substantially in order to replace some of the American goods Canada is compelled to forego, have risen considerably but still fall far short of what is required. This can be taken as indicative of the inevitably slow pace of recovery in Europe even under the most favourable circumstances. In reflection of this situation there is already apparent a marked shift in the pattern of our export trade, away from the sterling area and other soft currency countries and toward the U.S.

Before concentrating attention on developments in Canada itself, reference should be made to the good crop prospects in Europe and to the moderate to good crop prospects in other major food-producing areas this year. Disastrous crop failures following close on war-time damage and disorganization in agriculture have greatly aggravated Europe's already difficult political and economic problems and importantly contributed to the present abnormal dependence on North American sources of supply. Reflected in universally high prices, food shortages have been a powerful inflationary influence. Bountiful harvests in the great grain-producing areas of the world, Canada being the principal exception, will contribute substantially to European recovery but foreshadow a possible worsening in Canada's terms of trade with other countries.

Domestic Developments

Current indicators of economic activity in Canada during the first half of 1948 reflect developments abroad; they also reflect influences operative in the domestic market and the interaction of the domestic and the external situation on one another. The level of merchandise exports and imports has already been referred to. Current indicators, particularly those

that provide rough measures of expenditure and income flows or of the level of employment will be considered in the following paragraphs, in order to review the first half of the year and at the same time to indicate how events confirm or correct the anticipations expressed in the first report. Current statistical series do not permit anything approaching a complete review of money flows or of employment and unemployment but they do provide full or partial coverage of certain important segments.

Consumer Expenditure. Consumer expenditure on goods, as reflected in retail sales and other sales series, has been about 13 per cent above the level of last year (January to May). There has been some change in the pattern of consumer spending as between the two years. Expenditure on perishables and on semi-durables have both risen to about the same extent - 13 per cent and 14 per cent respectively, whereas expenditure on durables has risen only about 7 per cent. This reflects the relatively greater rise in the prices of perishable and semi-durable goods. In terms of volume, sales of all three broad categories of goods have fallen off, between 8 and 9 per cent in the first two and about 7 per cent in durables. The sharp rise in consumer prices over the past eight months, with which average wage income has failed to keep pace, has undoubtedly led to more careful spending, while demand carried over from past periods of scarcities appears to have been satisfied where a number of small items is concerned.

Evidence from other sources confirms this analysis of consumer spending during the first half of the year. Reports have been received of slow moving inventories and of small lay-offs by manufacturers of leather goods, rubber footwear, radios, candy and confectionery and furniture, etc. No such reports have been received with respect to the staples in the budget nor with respect to the large consumer durables. During the first part of this year, the available supply of the two durables probably most urgently required, namely passenger cars and refrigerators, has been less than in the same period last year, partly as a result of import restrictions. Consumer demand thus continues to be inhibited by lack of the goods most desired, only replacement needs for some items now have to be met, while high and rising prices not always matched by high and rising incomes have tended to reduce the consumption of some groups. These trends are in conformity with expectations, although the rise in consumer prices and the decline in the volume of goods purchased are both somewhat greater than was provided for in the original estimate.

Labour Income. Labour income during the first half of the year has been running about 14 per cent above last year, which coincides very closely with what was anticipated when the first report was prepared. The steady if uneven advance in the average earnings of all groups of wage earners has continued, although there has been some evidence of a slackening rate of increase in some few industries in which the demand for labour has been falling off. As indicated by average weekly earnings in nine leading industries, the income of the average wage-earner during the first five months of 1948 was 10 per cent higher than in the same period of last year. This represents a real deterioration in buying power when set beside a 17 per cent increase in the cost of living in the same period. Interruptions of work, as a result of power and gas shortages, import restrictions, material shortages and so forth, have had some effect in reducing the length of the average work week, thereby preventing the full rise in earnings that increased wage rates would have warranted.

Employment and Unemployment. The increase in employment during the first half of the year has been very little greater than was anticipated, although the distribution of employment has not conformed to expectations in some respects. The dollar conservation program has caused remarkably little dislocation of employment in manufacturing industries. Even in the automotive industry, lay-offs have not been of long duration and the adverse effects on employment in secondary textiles have been negligible. The shortage of steel has continued to hamper expansion in the fabricating industries. As a whole, however, manufacturing employment has shown small gains over last year. Likewise, employment in transportation and communications, services and finance is not much changed although none registers losses. In evidence of generally firm, if not uniformly buoyant conditions in the market for consumer goods, employment in trade has continued to show notable advances.

Unemployment has been below the low level envisaged in the forecast, although higher than in the first half of last year. In spite of the easing in the demand for labour in the logging industry, the gradual re-assertion of seasonal patterns in many industries, and the impact of import restrictions (inevitably dampening in their initial effect), the level of unemployment has remained extremely low, although it is indicative of an easing of labour shortages.

Physical Production. In the existing situation of high domestic and foreign demand pressing on limited supplies and thereby creating severe pressure on

particular prices, production trends in scarce items take on special significance. Developments during the first part of the year tend to confirm anticipations of an improved supply of basic and building materials this year as compared with last. In basic materials no change or a modest improvement was anticipated, except in the case of coal where uninterrupted activity and better output per worker were expected to make for a considerable increase. On the basis of a first five month's comparison, output of pig iron shows no change while output of steel ingots is slightly higher, thus substantiating the expectation of continuing scarcity of these basic materials. Output of asbestos, gypsum, coke and copper is higher, but only so far as copper is concerned is output higher than anticipated in the original forecast.

In building materials the improved supply situation anticipated when the first report was prepared is reflected in production data for the first five months of the year. Generally the improvement in output is at least as good as was anticipated, in some items substantially better, while there are isolated examples of building materials of which supply has overtaken demand.

The improvement in industrial output as a whole is reflected in the index of industrial production, which shows a 3 per cent increase on the basis of a comparison of the first four months of this year with the same period last year.

It is pertinent in this connection to point out that in respect of time lost through strikes, the first half of 1946 compares favourably with the same period of 1947, both in Canada and in the United States. There have been no work stoppages of any consequence in Canada and none in the U.S. that would curtail the supply of imports.

Price Trends. That supply as a whole, although improving, has not kept pace with mounting demand is evidenced by price trends. However, it should be remembered that present prices do not arise solely out of the inter-action of demand and supply, conditioned as supply is by import controls, but also reflect the continuing effects of decontrol.

The sharp and rapid rise in prices entering prominently into the cost of living, as they are reflected in the official index, began in the last half of 1947, when decontrol was accelerated, and carried forward over the turn of the year when the index began to reflect the excise taxes imposed under the dollar conservation program as well as the effects of restrictions on imports of consumer goods. With the exception of rent, all components had

risen steeply but unevenly by the early spring of 1948. Since then, the movement of consumer prices has ceased to be uniformly sharply upward. In May comparisons with the same date last year show food prices still rising, having risen 23 per cent, and clothing prices also still advancing, having risen 24 per cent, with the cost of living index as a whole up by 15 per cent. From the consumer's point of view the first half of the year has not only been one of rising prices, particularly for essentials, but also one of changing relative prices, all of which inevitably compels a considerable adjustment in buying habits of lower income groups.

While wholesale prices also show a very considerable rise in comparison with last year, with increases ranging from 17 to 20 per cent for the main groups, and 19 per cent for wholesale prices generally, nevertheless during 1948 the rate of increase has slackened perceptibly. Wholesale prices in May were only about 2 per cent above what they had been at the beginning of the year, and wholesale prices of building materials, which had risen spectacularly over the course of 1947, have fluctuated both up and down from the high level reached at the end of last year.

To consider the trend of prices in the U.S., with particular reference to the prices of the commodities that enter prominently into the trade between our two countries, newsprint prices are now about 8 per cent above the average of last year, and additional increases are announced but not yet effective. Metal prices are high and rising. Lumber prices have remained fairly firm near the very high levels reached at the end of 1947, and are thus well above last year's average. As for the prices of the commodities imported from the U.S., raw cotton prices have fluctuated widely without showing any basic upward trend, crude petroleum is up about 35 per cent, coal prices have increased about 15 per cent and industrial machinery also about 15 per cent. On the basis of a first half year comparison, the prices of our imports from the U.S. appear to have risen somewhat more than the prices of our exports to that country.

Summary. The first half of the year has been expansionary, with high levels of production and employment and high levels of domestic and foreign demand. There was some easing of pressures both in product markets and in the market for labour. On the other hand, there were localized areas of intensified pressure by reason of the lack of the accustomed flow of imported supplies. Operating through the price mechanism, the effect of these developments has been to curtail domestic consumption, thereby encouraging more production for export and for domestic investment. However, the shift of emphasis so far has been slight.

PART III

THE FORECAST AND ITS COMPONENTS

The course of economic events during the latter part of the year is expected to follow the lines of development established during the early months and described in the preceding sections. Given an expansionary domestic situation as the underlying influence, the main determinants shaping the future clearly will continue to be the measures taken to cope with the exchange problem, and the progress of European recovery on the basis of American assistance. The first of these compels a re-direction of resources and a change of emphasis within the structure of production. The second insures that, for the near term at least, readjustment need not take place on a large scale. Their combined effect is to strengthen confidence, and confirm the inflationary character of the period under review.

As in previous reports the outlook will be reviewed by a systematic consideration of prospective expenditure and income flows and of the level of employment and unemployment involved therein. The lack of balance between demand and supply, which will be mirrored in price movements, is examined by sectors and for the economy as a whole.

Exports and Imports of Goods and Services

The revision of the forecast of merchandise exports represents the sum of higher expectations for a fairly wide range of products.

Even with a 1948 crop that is no better than average, exports of coarse grains may exceed the original forecast, in that exports out of last year's crop are higher than expected. As in the previous forecast, it is assumed that in value exports of wheat will be lower than in 1947, in spite of the higher U.K. contract price for wheat, effective August 1st. The outlook for exports of flour is unchanged, that is to say they would be considerably lower than in 1947, last year's comparatively poor crop having necessitated restrictions on supplies to the millers. Slaughterings of livestock have been heavier than was expected and prices high, so that the forecast of livestock exports has been revised upward. In total, exports of farm products are expected to be very little above the level of 1947 and only moderately higher than originally anticipated. Although higher prices permeate this segment of Canada's export trade, this will do little more than offset the effect of relatively unsatisfactory crops in 1947 and a prospective poor wheat crop in 1948.

The forecast of exports of pulp and paper products has been revised moderately upward while the forecast of lumber exports is not much changed. Experience has fully confirmed anticipations of increased prices and greater volume in pulp and paper products and has likewise substantiated expectations that lumber products could be readily diverted from U.K. to U.S. markets. But it is in metals that the outlook is now very much better than it was early in the year. Markets are firm and Canadian output of metals is mounting. Fish products are finding an unexpectedly good outlet in the United States, where the high price of meat encourages the consumption of fish. As a group these basic Canadian exports are expected to be considerably higher this year than last, and higher than seemed possible six months ago.

On the other hand, exports of machinery, equipment and consumer durables are now expected to be much the same as in 1947. This will involve a considerable change in the content of the group, since some items, for example agricultural machinery, are expected to increase substantially. On the whole, exports of finished manufactured goods (which were considered to be those most vulnerable to the effects of the dollar shortage) have been fairly well maintained during the first part of the year and no unfavourable developments are expected.

The present forecast of merchandise imports assumes that existing restrictions will remain in force throughout the year. Even with this constraining influence, merchandise imports are now expected to surpass last year's peak level by a small margin. For the second half of the year this will involve a somewhat higher level of imports than in the first six months, which nevertheless makes some provision for a time lag between the imposition of restrictions and their effect on the flow of goods. Such a level of imports and the sharp reduction in certain categories that is necessary to its realization, implies particular scarcities and particular pressures within the price structure that will continue to operate predominantly in the consumer sector.

The revised forecast of receipts and payments on the invisible items involves a number of changes up or down in individual items but their net effect is to reduce considerably the negative balance originally anticipated.

The forecast of the net balance on international current account indicates a positive balance of about \$300 million, although it must be emphasized that a band of uncertainty surrounds any estimate made before the crop is harvested. If realized, a positive balance of this magnitude would

be in sharp contrast to the almost even position in 1947, and to the much more modest expectations set forth in the previous report.

Gross Home Investment

The revised forecast of investment in durable physical assets (Table III) is largely based on a sample survey in which businessmen were asked to review the investment plans they had outlined early in the year and to restate their intentions. Since the revisions are mainly in an upward direction, the survey furnishes one more piece of evidence that an attitude of confidence pervades the business community.

On review it appears that the value of investment in durable physical assets will be somewhat higher than was originally forecast, 25 per cent above the estimate for 1947, rather than 17 per cent above. When allowance is made for an anticipated rise of 15 per cent in the price of capital goods, it appears that in real terms investment in durable physical assets will be about 10 per cent higher than in 1947.

In terms of particular industries, the change of intentions in manufacturing, although by no means as considerable as in some other segments, is particularly noteworthy in view of its being the largest single segment and the one most affected by measures taken to conserve U.S. dollars. The present estimate involves a continuation of the recent rapid rate of expansion in this industry. Textile and chemical industries in particular show a very sharp upward revision in their intentions to spend. Animal products and vegetable products and non-ferrous metal products have also revised their plans considerably in an upward direction. Comparatively small downward revisions are shown in wood and paper products, in iron and its products and in non-metallic mineral products.

The original forecast of investment in the utilities segment was regarded as a minimum, in view of the heavy backlog of works known to be held in readiness pending some easing in the shortages of labour and materials. The present estimate of an increase of 42 per cent over 1947, as compared with the earlier estimate of an increase of 28 per cent, is therefore not unexpected. Steam railways, central electric stations, and air transport agencies have all revised their plans upward, as have municipally-owned utilities.

The estimate for the commercial sector is also considerably increased. In both agriculture and in housing, where supply was considered to be the decisive limiting factor, the improvement in production at present

and in prospect supports a higher estimate. In housing the present estimate provides for the completion of 87,000 units in 1948, or about 10 per cent more than in the previous year.

There are some significant regional differences in the revision of planned capital expenditures. In Ontario, where it was anticipated that economic activity would continue to involve steady pressure on the supply of labour and materials, the revision indicates a slight scaling down of expenditures. In the Maritimes and in British Columbia, where labour surpluses had already developed, and in the Prairies, where some slack can always be anticipated in the event of unfavourable weather, revisions have been sharply upward - 29 per cent, 25 per cent and 21 per cent respectively. In Quebec likewise the revisions indicate a substantial increase, namely 17 per cent. Compared with 1947, the revisions indicate the following increases in the five main regions: 35 per cent in the Maritimes, 28 per cent in Quebec, 25 per cent in Ontario, 28 per cent in the Prairies and 14 per cent in British Columbia. Thus at mid-year the outlook is for a more evenly distributed expansion program, and for less localized pressures and localized surpluses than could have been foreseen some months ago.

Investment in inventories is expected to be substantial but to involve a smaller addition to stocks than occurred in 1947. Evidence covering the first few months of the year confirms anticipations of a continued increase but a declining rate of increase in manufacturing, wholesale, and retail inventories. Now that badly depleted stocks have been built up to near satisfactory levels in many lines, inventory accumulation (non-farm) can be expected to absorb a dwindling proportion of total output. Stocks on farms are expected to be drawn down in total, reflecting an anticipated sharp decline in livestock inventories and some increase in inventories of grain.

Personal Expenditure on Consumer Goods and Services

In revising the forecast of consumer expenditure, (see Table II) the underlying conditions establishing consumer demand were considered to be developing substantially along the lines set out in the first report. That is to say, the level of incomes accruing to consumers for spending has been high and rising, with increased employment, higher wage rates, higher farm income, higher profits, and for the year as a whole, a lower level of taxation as compared with 1947. While these conditions would make for general firmness in the market for consumer's goods, it was considered that demand for a few items had passed its crest, while import restrictions would limit supplies of

those items for which demand is still insistant. Rising prices for staples in the budget would curtail the volume of consumption in some directions but the continuing buoyancy of economic conditions would ensure substantially increased expenditure in money terms. At the present time, however, a review of the forecast would suggest the need for some minor modification but no fundamental change in the original estimate.

The revised forecast assumes an increase of about 12 per cent in expenditures on perishables, on the basis of an assumed increase of 15 per cent in prices of this category of goods. Expenditures on food, which account for about half of the group total, are assumed to rise by 16 per cent, this being the result of a decline in volume, and an increase of about 20 per cent in prices. Such an increase in prices for the year as a whole will involve the upward trend of food prices being held near its present high level. The realization of the forecast of expenditure on food will require some gain in the volume of sales during the latter part of the year, in response to steadier prices and an improvement in wages relative to prices. For other categories of perishable goods price increases are expected to be less significant than in food and some gains and some losses in the volume of purchases are provided for in the forecast.

For semi-durable goods the forecast assumes an increase in expenditure of 18 per cent, involving an increase in prices of about 25 per cent and some offsetting losses in the volume of sales. Clothing and dry goods, overwhelmingly important in the composition of this group, have risen quite sharply in price and some continuation of the trend is provided for in the estimate. The effect of import restrictions in curtailing supplies is particularly apparent in this category and price pressures are therefore especially severe.

For durables the forecast provides for increased expenditure of 14 per cent, made up of a moderate increase in the volume purchased and an average price increase of about 8 per cent. The supply of large consumer durables, the effective limiting factor to the purchases that can be made, will be substantially unchanged from what it was in 1947, while it is anticipated that there will be some abatement in the intensity of demand for some of the durables that have been in abundant supply for some time past. On the other hand, the removal of the excise tax as of August 1st is likely to encourage purchases that would otherwise have been postponed.

In view of the comparative rigidity of some prices in the service sector, for example charges for utilities and for transportation, and the

continued control of rents, expenditures on services are not expected to increase to the same extent as expenditure on goods. The increase anticipated is 8 per cent.

As a whole, the increase in consumer expenditure of 12 per cent is considered to involve slightly reduced consumption in real terms. On goods (where fairly complete measures of price change are available) the decline in volume envisaged would be of the order of 2-3 per cent and the price increase about 16 per cent. On services (where few such measures exist) the price increase envisaged is about 3 per cent. Given the distribution of expenditure between goods and services these assumptions involve some decline in real consumption.

The forecast of consumer expenditure as it has been developed therefore assumes some change in consumption patterns in response to changing price relationships and it would also imply that the purchase of some of the much desired durables will be financed by curtailing expenditures in other directions. In this respect, consumer expenditure in 1948 would contrast with that in 1947 when rising incomes on the one hand and diminished saving on the other largely financed the purchase of the durable goods re-appearing on the market. In terms of personal saving out of current income, the forecast of consumer expenditure would involve 91 per cent of income being spent in 1948, as compared with 94 per cent in 1947.

Government Expenditure on Goods and Services

The original forecast of Government expenditure (Table IV) was based on preliminary and partial information on governments' intentions to spend. For Federal and Provincial Governments particularly, there is now more complete information on intentions and a clearer indication of the extent to which plans will be carried out. The revisions have the effect of raising the forecast although the change is not appreciable.

The forecast of Federal Government expenditures on new construction is increased, to take account of slightly higher estimates than originally anticipated, and to provide for a somewhat larger proportion of proposed construction being carried out. The forecast of provincial government expenditures under this heading is also increased, because construction programs in the provinces of Nova Scotia and Saskatchewan are heavier than was expected. In addition, the floods in British Columbia will necessitate some emergency outlays. There is also evidence that in Quebec and the Maritimes the construction of schools will exceed what was provided for in the first forecast of Municipal Government expenditures.

The forecast of other Government expenditures, covering the expenses of administration, is raised for Provincial and Municipal Governments but reduced for the Federal Government. In part this reflects better estimates and in part the effect of higher prices and wages on the cost of the continuing services of Government.

Essentially the changes in the construction items may be taken to represent the response of the spending authorities to the improvement in the supply of labour and materials that was one of the significant developments of the first half of the year. Provincial and Municipal Governments in particular have a backlog of essential public works which they are eager to proceed with as the opportunity presents itself. The Federal Government also has projects that cannot be deferred, in spite of its policy of keeping expenditures to a minimum so long as labour and materials remain scarce.

The Income Components

The present forecast of labour income takes account of a somewhat higher level of employment than was foreseen early in the year and also provides for a slightly higher level of average earnings, that is 11 per cent rather than 10 per cent above average earnings in 1947. This involves a perceptible slackening in the sharp rate of increase in wage rates that has been so characteristic a feature of the post-war period, and in association with realized and anticipated increases in consumer prices it means a deterioration in the real income of the average wage-earner.

Investment income is made up of highly stable and highly unstable elements. Contractual payments such as interest and rent change comparatively little from year to year whereas corporate profits are highly responsive to a changing price situation. It is anticipated that the price developments in progress or in prospect in 1948 will involve an increase in corporate profits of 19 per cent, and that investment income as a whole will be up about 10 per cent.

The share of the individual enterpriser (non-farm) in the national income responds fairly quickly to rising prices and is also augmented by the increase of numbers in this group. The expectation is that the net income of individual enterprise non-farm will increase by about 13 per cent.

While the increase anticipated in agricultural net income (Table V) compares favourably with the increase anticipated in other income components, it must be remembered that this year's agricultural income will include substantial payments on past years' crops. The previous forecast assumed

average crops and a near average crop may in fact be realized. Although moderately good crops are expected in most areas, in the central Prairie region rainfall was inadequate up to mid-July and yields are expected to be poor. Thus, there are changed anticipations for particular crops, and for farm income in particular areas.

Spring floods in the Prairies reduced acreage sown to wheat although this is partially offset by higher acreage of coarse grains. Crop prospects are fairly good in Eastern Canada and in some parts of the West. Income from this year's crop of grain, seeds and hay is expected to be above what was realized in 1947 when crops were below average. Prices this year are, of course, considerably higher. Income under this heading, as shown on Table V, includes payments on past years' crops amounting to \$74 million in 1947 and to \$168 million in 1948.

In livestock it is expected that there will be divergent trends in marketings as between different types of livestock, but very much higher prices prevailing for livestock products generally. In spite of a net reduction in marketings, income from this source is therefore expected to be about 11 per cent above what it was in 1947.

The upthrust of prices, reflected so sharply in gross farm income, also has its effect on farm operating expenses. The forecast of net income for 1948 provides for an increase in expenses of about 12 per cent, the most important single element in that estimate being the very sharp rise in the price of feed and seed. In view of the recent heavy investment in farm machinery provision must also be made for increased depreciation charges.

When all the foregoing considerations and an anticipated decline in farm inventories are taken into account, it is expected that agricultural net income in 1948 will be about 18 per cent above the level of 1947.

While the distribution of income by national income components shows no sharp change from the previous year, nevertheless the somewhat uneven upward movement would obscure widely different experience for individuals in different categories and even for individuals in the same broad category. The distortions in the price structure that are the distinguishing characteristic of an inflationary situation are thus mirrored in the income structure.

Government income from indirect taxes also rises with the higher level of activity and the upthrust of prices. However, since a part of revenue is derived from taxes on imports, which are expected to show little

increase, and a large part from taxes on dispensable items in the budget, on which consumers are now curtailing their expenditure, it is expected that revenue from indirect taxes in 1948 will not be appreciably higher than in 1947. However, since subsidies will be substantially lower this year indirect taxes less subsidies are expected to increase by about 13 per cent.

The Labour Force, Employment and Unemployment

Developments in labour force and employment are an integral part of the economic outlook and of some significance in appraising the future course of prices. The complex process of selective expansion that is now under way is reflected in the industrial distribution of the working force and limited by the number of workers available. A forecast of labour force and employment therefore precedes a final summing up of the outlook in terms of expenditure and income flows.

Evidence from a number of sources indicates that a somewhat larger proportion of the population is working or seeking work than was the case a year ago. It may be that some withdrawals from the labour force following the war would have been temporary in any event or it may be that in the combination of rising prices not matched by rising incomes is inducing married women, students, older people and other persons on the fringes of the labour force to look for paid employment. While the original forecast made some provision for such a development, it now seems that the allowance made was inadequate. On reconsideration the estimate of new entrants not offset by retirements (exclusive of immigration) is set at 100,000 persons. The original estimate of the net addition to the labour supply through migration, namely 33,000 on the basis of an average for the year, is unchanged. Since in the prevailing circumstance, the level of employment is very largely established by the number of people willing and able to work, a labour force larger than originally anticipated will help to account for a level of employment somewhat higher than was expected earlier.

The economic outlook as it has been set forth in the preceding sections will reflect itself in the market for labour. This will involve continuing over-all buoyancy in the demand for workers, but some easing of labour shortages as output per worker improves and minor downward readjustments in production and employment occur in particular industries in response to shifts in the demand for final products. The growth in the labour force, in particular the channelling of immigrant labour to the areas of acute shortage, will also contribute to the same result.

In terms of particular industries perhaps the most significant change from the previous forecast is to be found in the revised anticipations of employment in the logging industry. The loss of the U.K. contract for Maritime lumber and the building up of pulpwood inventories to fairly satisfactory levels have caused a distinct tapering off of this industry's hitherto almost unsatiated demand for labour. A decline in labour turnover and a consequent improvement in output per worker also may have been a factor. In these circumstances it is anticipated that the logging industry will employ fewer workers in 1948 than in 1947.

For mining, expectations remain substantially as expressed in the previous report. In metal mining the recent expansion of employment is particularly noteworthy, although employment is not yet restored to pre-war levels.

The increase of employment in trade is now expected to exceed anticipations as expressed in the previous report. In spite of evidence of a declining volume of sales, there has been a notable advance in employment in this industry, possibly reflecting more competitive selling or the restoration of pre-war standards of service or both. In finance, and in transportation and communications, employment trends confirm the modest advances anticipated earlier.

In manufacturing, employment is expected to continue to make small advances. As in the recent past, these gains would be the final result of a number of conflicting tendencies. The measures taken to conserve U.S. dollars have caused a minimum of dislocation in manufacturing industries, less in fact than was expected when the first report was prepared. On the other hand, the waning intensity of consumer demand for some products, both at home and abroad, is causing losses in some industries, rubber and leather products for example, while the shortage of steel is retarding expansion, or interrupting operations, or sharply curtailing employment, depending on the special circumstances of each major steel-using industry. Nevertheless, the strong demand for the products of our major manufacturing industries, intensified by import restrictions in some cases, e.g. textiles, which manufacture largely for the home market, makes for a steady expansion of employment in these sectors. The situation is thus unlike 1947 when the trend of employment in manufacturing was uniformly upward over the greater part of the year.

The improving supply of building materials, and the increase in planned investment seemed to warrant a somewhat higher estimate of employment in the construction industry than seemed possible early in the year.

The forecast of employment in agriculture has also been raised, largely on the grounds that this relatively unattractive industry stands to benefit from the gradual alleviation of labour shortages.

Civilian employment in 1948 is therefore expected to surpass the previous year's by 120,000 or between 2 and 3 per cent. If expectations with respect to the size of the labour force are fulfilled this will involve unemployment of 120,000 or about 2.5 per cent of the labour force in 1948 as compared with about 2 per cent in 1947. There will continue to be unequal regional incidence of unemployment, but perhaps somewhat less inequality than could have been foreseen six months ago.

The Forecast as a Whole

Gross National Product in 1948 is thus expected to be about \$15.1 billion, an increase of nearly 15 per cent over last year's level. Exports are expected to absorb a somewhat smaller proportion than in the previous year. However, in relative terms the reduction in imports should be much greater, thus creating an appreciable surplus in our current international account. The relative position of domestic investment is not much changed, although a smaller part will be used in building up depleted stocks and a larger part in adding to capital equipment. The share absorbed by Government likewise will be little changed. It is the domestic consumer who will experience some deterioration in his relative position. This is being accomplished by rising prices, changing relative prices, and shifts in income distribution, whose combined effect is to constrain consumer demand, thereby releasing resources for other uses.

The Gross National Product anticipated would represent an increase in prices of about 12 per cent and only a 3 per cent increase in real product. Since increased farm employment will not be associated with any increase in farm output in physical terms, the increase in real product will involve a small improvement in output per worker in the industrial sector.

The price anticipations involve a steadier price level in the latter part of the year. In support of this anticipation the following considerations are put forward. The improvement in labour supply relative to demand eases one element of pressure on the price structure. However, since there are bottlenecks in capacity in certain strategic sectors - namely steel,

cotton and electric power, unequal pressures are bound to persist for some time to come. Because of these bottlenecks in capacity, labour cannot be quickly absorbed in some of the sectors where an expansion of output is required, either for use at home or for sale abroad. Higher unemployment is therefore not inconsistent with continuing inflationary pressure. However, it would seem to be inconsistent with accentuated inflationary pressure in that as wages fall behind consumer prices a steadying influence comes into operation.

Furthermore, this year's federal budget, which is expected to involve a substantial surplus, was designed to have an anti-inflationary effect. The overall government surplus during 1948 may, in fact, be little reduced from that of 1947, even though its effectiveness is in one sense partially offset by sizable net investment abroad. Even with this net drain into the Treasury, the supply of funds for the private investment market still appears adequate to support the present high level of outlay for capital goods. In spite of the lower real incomes of many groups, estimates on which this report is based show that personal saving during 1948 will exceed that of the previous year. Higher prices have probably had the greatest effect on low income groups and people on fixed incomes, whose savings in any event are small. The increase in savings would be the result of the improved income-price position of various professional and small business groups, including farmers. Resistance to higher prices is no doubt another factor of some importance. Funds available from depreciation reserves and from undistributed profits will also be substantially greater. Consequently, availability of funds does not appear to be a serious limiting factor to intended investment.

